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C O N F I D E N T I A L CAIRO 004972

SIPDIS

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SUBJECT: EGYPT AND ISRAEL SIGNED GAS DEAL

Classified by ECPO Counselor John Desrocher for reasons 1.4
(b) and (d).

1. (C) Israeli Infrastructure Minister Binyamin Ben Eliezer and Egyptian Oil Minister Sameh Fahmi publicly signed June 30 in Cairo a memorandum of understanding for Egyptian gas sales to Israel. Negotiations on this agreement have dragged out over 10 years largely because of political concerns in Egypt.

In an effort to distance itself from the political implications, the GOE encouraged the formation in 2000 of the Egyptian Eastern Mediterranean Gas joint venture company, owned by Israeli businessman Yossi Mieman's Merhav Group (25%), Egyptian businessman Hussein Salem (65%), and the GOE's Egyptian Gas Holding Company (10%). Having a private company negotiate with the Israel Electric Corporation made the arrangement more palatable for the GOE. The parties concluded an agreement in principle in early summer 2004 and concluded a framework agreement in February 2005. The agreement signed today was a political understanding between the two governments; today's signing, witnessed by Egyptian Prime Minister Nazif, was the most high-profile public recognition of the deal to date. A commercial agreement laying out the precise terms remains pending.

2. (SBU) According to the agreement, an offshore pipeline will be constructed from El Arish in Sinai up to the coast of Israel, bypassing Gaza. Construction could begin as early as October 2005 with Egyptian gas possibly flowing to Israel by the second half of 2006. Under the agreement, Egypt would provide approximately 1.7 billion cubic meters of gas per year 15 years for a total amount of USD 2.5 billion, making this Egypt's most lucrative gas deal ever.

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